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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING JANUARY 1, 2001 AND ENDING DECEMBER 31, 2001
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

TOUCHSTONE SECURITIES, INC.

OFFICIAL USE ONLY

47-6046379

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

221 EAST FOURTH STREET SUITE 300

(No. and Street)

CINCINNATI, OHIO45202

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

TERRIE A. WIEDENHEFT(513) 362-8242

(Area Code — Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

ERNST & YOUNG LLP

(Name — if individual, state last, first, middle name)

1300 CHIQUITA CENTERCINCINNATI, OHIO45202

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒ Certified Public Accountant☐ Public Accountant☐ Accountant not resident in United States or any of its possessions.**PROCESSED**

APR 04 2002

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

I, TERRIE A. WIEDENHEFT, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of TOUCHSTONE SECURITIES, INC., as of DECEMBER 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Terrie A. Wiedenheft
Signature
CFO
Title

Brenda L. Feige
Notary Public



BRENDA L. FEIGE
Notary Public, State of Ohio
My Commission Expires Feb. 25, 2003

This report** contains (check all applicable boxes):

- ☐ (a) Facing page.
- ☐ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☐ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Touchstone Securities, Inc.

Financial Statements and Supplemental Schedule

Year ended December 31, 2001

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Report of Independent Auditors

Board of Directors
Touchstone Securities, Inc.

We have audited the accompanying statement of financial condition of Touchstone Securities, Inc., an indirect wholly owned subsidiary of Western and Southern Life Insurance Company, as of December 31, 2001, and the related statements of operations, changes in stockholder's equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Touchstone Securities, Inc. at December 31, 2001, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ernst & Young LLP

January 25, 2002

Touchstone Securities, Inc.
Statement of Financial Condition

December 31, 2001

Assets

Cash	\$ 3,859,841
Investments, at market	1,011
Commissions receivable	347,305
Receivable from affiliates	358,896
Prepaid expenses	72,957
Deferred commissions	644,796
Equipment (net of accumulated depreciation of \$30,080)	12,041
Total assets	<u>\$ 5,296,847</u>

Liabilities and stockholder's equity

Commissions payable	\$ 37,814
Payable to affiliates	1,412,853
Accrued expenses	667,187
Total liabilities	<u>2,117,854</u>

Stockholder's equity:

Common stock, \$100 par value, 1,000 shares authorized, issued and outstanding	100,000
Paid-in capital	19,866,377
Accumulated deficit	<u>(16,787,384)</u>
Total stockholder's equity	<u>3,178,993</u>
Total liabilities and stockholder's equity	<u>\$ 5,296,847</u>

See accompanying notes.

Touchstone Securities, Inc.

Statement of Operations

Year ended December 31, 2001

Revenue

Commissions	\$39,168,640
Underwriting	309,066
Distribution fees	1,964,884
Outsourced funds revenue	170,226
Interest	44,095
Other	5,299
Total revenue	<u>41,662,210</u>

Expenses

Commissions	39,389,416
Sales and distribution	1,901,684
Advertising	931,235
Employee compensation and benefits	1,716,595
Shared services	373,800
Travel	780,077
Postage	266,173
Printing	390,222
Administrative services	364,921
Training	220,365
Professional services	41,277
Telephone	68,289
Supplies	10,527
Filing fees and taxes	51,158
Total expenses	<u>46,505,739</u>

Net loss (4,843,529)

See accompanying notes.

Touchstone Securities, Inc.

Statement of Changes in Stockholder's Equity

December 31, 2001

	Common Stock	Paid-In Capital	Accumulated Deficit	Total Stockholder's Equity
Balance at December 31, 2000	\$ 100,000	\$13,794,377	\$(11,943,855)	\$ 1,950,522
Capital contribution from parent		6,072,000		6,072,000
Net loss			(4,843,529)	(4,843,529)
Balance at December 31, 2001	<u>\$ 100,000</u>	<u>\$19,866,377</u>	<u>\$(16,787,384)</u>	<u>\$ 3,178,993</u>

See accompanying notes.

Touchstone Securities, Inc.

Statement of Cash Flows

Year ended December 31, 2001

Cash flows from operating activities

Net loss	\$(4,843,529)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation	9,282
Change in operating assets and liabilities:	
Commissions receivable	(122,796)
Receivable from affiliates	(282,167)
Prepaid expenses	(3,245)
Deferred commissions	(644,796)
Accounts payable	(11,847)
Commissions payable	(103,284)
Payable to affiliates	530,672
Accrued expenses payable	119,745
Net cash used in operating activities	<u>(5,351,965)</u>

Cash flows from investing activities

Sale of securities	<u>217,804</u>
Net cash provided by investing activities	217,804

Cash flows from financing activities

Capital contribution from parent	<u>6,072,000</u>
Net cash provided by financing activities	6,072,000

Increase in cash and cash equivalents 937,839

Cash and cash equivalents at beginning of year 2,922,002

Cash and cash equivalents at end of year \$ 3,859,841

See accompanying notes.

Touchstone Securities, Inc.

Notes to Financial Statements

December 31, 2001

1. Organization and Summary of Significant Accounting Policies

Background and Nature of Business

Touchstone Securities, Inc. (the Company) is a wholly owned subsidiary of Western-Southern Life Assurance Company (WSLAC), a wholly owned subsidiary of Western and Southern Life Insurance Company (WSLIC). The Company is registered as a broker-dealer in securities under the Securities Exchange Act of 1934 and is authorized to hold both trading and investment securities. The Company distributes the Touchstone Family of Mutual Funds (the "Touchstone Funds") and fixed and variable annuities of its affiliates through affiliated sales representatives. The Company generates 100% of its revenue from transactions with affiliates.

Revenue Recognition

Commission income and related expense pertaining to fixed and variable annuity and mutual fund transactions are recorded upon the execution of the contracts for annuity transactions and the trade date for mutual fund transactions.

Sales distribution fees are recognized as earned based on an expense reimbursement agreement between the Company and an affiliate.

Deferred Commissions

Deferred commissions represent the commissions paid by the Company from the distribution of B shares. The deferred commission expense will be recognized over a period of up to six years to match the potential life of the contingent deferred sales charge earned by the Company.

Income Taxes

The Company is included in the consolidated federal income tax return with WSLIC. Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes*, requires a systematic and rational allocation of tax expense to members of the consolidated group. Accordingly, the Company records a provision for income tax expense under the separate return method as permitted under SFAS No. 109. The benefit from losses of the Company, which are utilized in the consolidated return, will be retained in the parent company under the tax sharing agreement. Any difference between the amount of tax expense or benefit under the separate return method and the amount of cash paid or received under the tax sharing agreement is treated as either a dividend or a capital contribution.

Touchstone Securities, Inc.

Notes to Financial Statements (continued)

1. Organization and Summary of Significant Accounting Policies (continued)

Cash Equivalents

Cash equivalents consist of short-term highly liquid investments with original maturities of three months or less.

Equipment

Equipment is recorded at cost and is depreciated on a straight-line basis, using an estimated useful life of five years.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Related Party Transactions

The Company shares common facilities, equipment, personnel and administrative services with affiliated entities. The Company reimburses such entities for the use of facilities, equipment, personnel and services based generally on office space utilized, direct payroll costs incurred and out-of-pocket expenses. The Company incurred charges of \$373,800 from affiliates for the use of facilities and services for the year ended December 31, 2001.

WSLAC has committed to fund operations of the Company to the extent necessary for the Company to continue as a going concern.

The Company serves as a distributor for annuity contracts sold by WSLAC and Integrity. During 2001, the Company recorded commission income of \$1,655,807 and \$36,591,472 of commissions received from WSLAC's and Integrity's annuity sales, respectively.

The Company receives sales distribution income (12b-1 fees) from the Touchstone Funds as compensation for sales distribution efforts of the Company. Such fees amounted to \$1,964,884 for the year ended December 31, 2001.

Touchstone Securities, Inc.

Notes to Financial Statements (continued)

2. Related Party Transactions (continued)

The Company entered into a management service arrangement with affiliates in the current year whereby it pays expenses for services received from affiliates. During 2001, the Company incurred \$2,311,782 in expenses under this arrangement.

3. Pension Plans

The Company is covered under the Western-Southern Affiliated Company Employee Retirement 401(k) Savings Plan (the Savings Plan) which is a contributory plan covering all eligible full-time employees. The Savings Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA). Contributions by the Company amounted to \$5,562 for the year ended December 31, 2001.

Additionally, the Company is covered under the Western-Southern Affiliated Companies Retirement Plan (the Retirement Plan) which is a defined contribution plan, established on January 1, 1992, to provide eligible participants with additional income after retirement. Eligible participants include employees of the Company, who are over twenty-one years of age and have more than 1,000 hours of service during a twelve-month period. Under the Retirement Plan, each participant is provided with an allocation of the Company's contribution that is determined by resolution of the Board of Directors. The Retirement Plan is subject to provisions of ERISA. Contributions by the Company amounted to \$74,330 for the year ended December 31, 2001.

4. Regulatory Requirement

The Company is subject to the Uniform Net Capital Rule, Rule 15c3-1 (the "Rule"), promulgated by the Securities and Exchange Commission, which requires that the Company maintain a minimum net capital of \$50,000 and a ratio of aggregate indebtedness to net capital not to exceed 15 to 1, as those terms are defined by the Rule.

At December 31, 2001, the Company's net capital, as defined, was \$1,960,939, which was \$1,819,749 in excess of the minimum net requirement, and its ratio of aggregate indebtedness to net capital was 1.08 to 1.

5. Exemption from Rule 15c3-3

The Company carries no customer accounts and promptly transmits all customer funds and securities to its clearing brokers. Accordingly, the Company is exempt from the provisions of Rule 15c3-3 of the Securities and Exchange Commission.

Supplementary Schedule

Touchstone Securities, Inc.

Schedule I - Computation of Net Capital
Pursuant to Rule 15c3-1 of the Securities Exchange Act of 1934

December 31, 2001

Computation of net capital

1	Stockholder's equity	\$3,178,993
	Less non-allowable assets:	
2	Accounts receivables	(486,397)
3	Prepaid expenses	(719,574)
4	Equipment	(12,041)
5	Haircuts on securities held	(42)
6	Net Capital	<u>\$1,960,939</u>

Computation of aggregate indebtedness

7	Total aggregate indebtedness liabilities from balance sheet	\$2,117,854
8	Add drafts for immediate credit	-
9	Deduct adjustment based on Special Reserve	
	Accounts (15c3-1) (c) (1) (VII)	-
10	Total aggregate indebtedness	<u>\$2,117,854</u>

Computation of basic net capital requiremnet

11	Minimum net capital required (6 2/3% of line 10)	\$ 141,190
12	Minimum net capital required of reporting broker	\$ 50,000
13	Net capital requirement (greater of line 11 or 12)	\$ 141,190
14	Excess net capital (line 6 less line 13)	\$1,819,749
15	Excess net capital at 1000% (line 6 less 10% of line 10)	1,749,153

Computation of aggregate indebtedness to net capital

16	Percentage of aggregate indebtedness to net capital (line 10/line 6)	108%
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There were no material differences between the audited Computation of Net Capital included in this report and the corresponding schedule included in the Company's unaudited December 31, 2001 FOCUS filing.

Exhibit

Exhibit A

Touchstone Securities, Inc.

Report on Internal Controls Required by the Securities Exchange Act Rule 17a-5 for a Broker-Dealer Claiming an Exemption from the Securities Exchange Act Rule 15c3-3

Report of Independent Auditors

Board of Directors
Touchstone Securities, Inc.

In planning and performing our audit of the financial statements and supplemental schedule of Touchstone Securities, Inc. (the "Company"), for the year ended December 31, 2001, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications and comparisons
2. Recordation of differences required by rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned criteria. Two of the criteria of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with accounting principles generally accepted in the United States.

Rule 17a-5(g) lists additional criteria of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in any internal control or the practices and procedures referred to above, misstatements due to errors or fraud may occur and not be detected. Also, projections of any evaluation of internal control to future periods are subject to the risk that internal control may become inadequate because of changes in conditions, or that the effectiveness of its design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, and its operation that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not meet such criteria in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2001, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC and other regulatory agencies that rely on rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

January 25, 2002

Financial Statements and Supplemental Schedule

Touchstone Securities, Inc.

Year ended December 31, 2001

with Report of Independent Auditors